



The British  
Chamber of Commerce  
in Hong Kong  
香港英商會

Mr. Charles Li Xiaojia  
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Hong Kong

18<sup>th</sup> August 2017

Dear Mr. Li,

**New Board Concept Paper; and**  
**Consultation on Review of the Growth Enterprise Market (GEM) and Changes to the**  
**GEM and Main Board Listing Rules: Response of British Chamber of Commerce**

The British Chamber of Commerce in Hong Kong agrees on the importance of maintaining Hong Kong's premier status as an international financial centre, and of exploring opportunities to extend our capital markets to newly emerging companies and less conventional corporate structures. However the Chamber has a number of questions and observations relating to the HKEX's specific proposals, as set out below.

A threshold question to ask is: does Hong Kong need four boards? If the New Board (which in reality comprises two different boards: Premium and PRO) is established, is there a reason to keep GEM? Any decision on the New Board should include a comprehensive approach to GEM. If GEM is to be maintained, it must continue to be relevant, and then the question is whether there is a need for the New Board. If the New Board is to be established, its value-add to Hong Kong must be clear.

It seems that the New Board Premium is meant for applicants with weighted voting rights (WVR) structures but which, in all other respects, are the same as Main Board applicants. Would an alternative approach be to ask such applicants to list on the Main Board? Their WVR structure could be clearly differentiated by a special code or other unique features.

We believe that Hong Kong's regulatory framework must be relevant to the current environment and it should also be forward-looking. Hong Kong should be able to meet the needs of "new economy" companies without compromising investor protection. For example, in the case of WVR companies, this would entail full and transparent disclosure of the WVR structures and safeguards as mentioned in our response to the HKEX "Weighted Voting Rights Concept Paper" consultation of August 2014. Similarly, 'pre-profit' and new economy companies should still prepare offer documents to prospectus standards.

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We believe that Hong Kong capital markets should embrace both "established economy", and "new economy" companies, each group with a different and separate infrastructure and regulatory framework appropriate to the companies' business models, corporate structures and investor base. We urge HKEX and the Hong Kong Government to look to successful regulations in other jurisdictions; for example, in the US, where different exchanges cater for different markets.

To meet the funding needs of small start-ups, we would also ask if it would be more appropriate to encourage or permit some form of crowdfunding? In this regard, we refer to the views and recommendations of the Financial Services Development Council in their paper "Introducing a Regulatory Framework for Equity Crowdfunding in Hong Kong" of March 2016.

And in considering options, it is vital that Hong Kong markets retain the full confidence of the international investment community, this being a key point of differentiation and competitive advantage.

We have not 'ticked the box' on all of the detailed questions relating to proposed regulations or conditions for the various boards. Instead, these fundamental matters should be considered, before a deep dive into detailed regulations and conditions for listing.

We do wish to make a specific comment about shell companies and a GEM listing being considered as a stepping stone to the Main Board. We believe that any substantial change of business, or substantial change of shareholder within a short period of time from listing should only be allowed after a vigorous pre-approval process. Any subsequent transfer to Main Board will be treated as a new application.

Last but not least, we hope the HKEX will continue to take a global approach to market innovation; for example, to look beyond Mainland Chinese companies as potential listing applicants and encourage the listing of debt instruments.

Yours sincerely,



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## Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below on the proposed change discussed in the Consultation Paper downloadable from the HKEX website at:

<http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp2017062.pdf>

Where there is insufficient space provided for your comments, please attach additional pages.

1. Do you agree with the proposal to re-position GEM as a stand-alone board and hence remove the GEM Streamlined Process for GEM Transfers and re-introduce the requirements to (a) appoint a sponsor to conduct due diligence for GEM Transfers; and (b) publish a "prospectus-standard" listing document such that GEM Transfer applications are treated as a new listing application (without requiring the applicant to conduct an offering)?

Yes

No

Please give reasons for your views.

Please see our cover letter.

2. Do you agree with the proposal to require all GEM Transfer applicants to have (a) published and distributed at least two full financial years of financial statements after their GEM listings; and (b) not been subject to any disciplinary investigations by the Exchange in relation to a serious breach or potentially serious breach of any Listing Rules for 24 months before they can be considered for a GEM Transfer?

Yes

No

Please give reasons for your views.

3. Do you agree with the proposal to retain the current track record requirement under the GEM Listing Rules (i.e. two financial years)?

Yes

No

Please give reasons for your views.

4. Do you agree with the proposal to retain the current practice of not requiring a GEM applicant that can meet the Main Board admission requirements to list on the Main Board instead of GEM?

Yes

No

Please give reasons for your views.

We believe it is more appropriate for an applicant to be able to choose the board on which it wants to be listed, subject to full disclosure of the rationale for companies so eligible.

5. Do you agree with the proposal to increase the Cashflow Requirement from at least HK\$20 million to at least HK\$30 million?

Yes

No

Please give reasons for your views. We invite suggestions on other potential quantitative tests for admission to GEM.

Please see our cover letter. We would nevertheless like to understand HKEX's rationale for the proposed increase and whether it will materially enhance investor protection or the efficiency of the market.

6. Do you agree with the proposal to increase the minimum market capitalisation requirement at listing from HK\$100 million to HK\$150 million?

Yes

No

Please give reasons for your views.

Please see our cover letter. We would nevertheless like to understand HKEX's rationale for the proposed increase and whether it will materially enhance investor protection or the efficiency of the market.

7. Do you agree with the proposal to increase the post-IPO lock-up requirement such that controlling shareholders of GEM issuers:

(a) cannot dispose of any of their equity interest in a GEM issuer within the first year of listing; and

(b) cannot dispose of any interest in the subsequent year that would result in them no longer being a controlling shareholder as defined under GEM Listing Rule 1.01?

Yes

No

Please give reasons for your views.

To avoid 'shell making'.

8. Do you agree with the proposal to introduce a mandatory public offering mechanism of at least 10% of the total offer size for all GEM IPOs?

Yes

No

Please give reasons for your views.

To restrict market abuse.

9. Do you agree with the proposals to align the GEM Listing Rules on:

(a) placing to core connected persons, connected clients and existing shareholders, and their respective close associates with those under Appendix 6 to the Main Board Listing Rules and Guidance Letter HKEX-GL85-16 "*Placing to connected clients, and existing shareholders or their close associates, under the Rules*"; and

Yes

No

Please give reasons for your views.

To restrict market abuse.

(b) the allocation of offer shares between the public and placing tranches and the clawback mechanism with those in Practice Note 18 to the Main Board Listing Rules?

Yes

No

Please give reasons for your views.

To restrict market abuse.

10. Do you agree with the proposal to increase the minimum public float value of securities from HK\$30 million to HK\$45 million?

Yes

No

Please give reasons for your views.

Please see our cover letter. We would nevertheless like to understand HKEX's rationale for the proposed increase and whether it will materially enhance investor protection or the efficiency of the market.

11. Do you agree with using the Profit Requirement to determine eligibility to list on the Main Board?

Yes

No

If not, what alternative test should be used? Please give reasons for your views.

12. If you agree to retain the Profit Requirement, do you agree that the current level of profit under the Profit Requirement should remain unchanged?

Yes

No

Please give reasons for your views.

13. Do you agree with the proposal to increase the minimum market capitalisation requirement at listing for Main Board applicants from at least HK\$200 million to at least HK\$500 million?

Yes

No

Please give reasons for your views.

Such a material increase would exclude many quality applicants during adverse market conditions.

14. Do you agree with the proposal to proportionately increase the minimum public float value of securities for Main Board applicants from HK\$50 million to HK\$125 million?

Yes

No

Please give reasons for your views.

Such a material increase would exclude many quality applicants during adverse market conditions.



15. Do you agree with the proposal to increase the post-IPO lock-up requirement such that the controlling shareholders of Main Board issuers:

(a) cannot dispose of any of their equity interest in a Main Board issuer within the first year of listing; and

(b) cannot dispose of any interest in the subsequent year that would result in them no longer being a controlling shareholder as defined under Main Board Listing Rule 1.01?

Yes

No

Alternatively, do you believe that it is not appropriate to extend the post-IPO lock-up requirements for Main Board applicants, given that they are less likely to have the characteristics identified in the 2016 Suitability Guidance Letter because of their larger size and our proposal to raise the minimum market capitalisation requirement to HK\$500 million.

Please give reasons for your views.

16. Do you agree that the proposals for the Main Board should be considered independently irrespective of the outcome of the proposals for GEM?

Yes

No

Please give reasons for your views.

- End -